

**Statement of Wellington E. Webb, Mayor of the City and County of Denver**  
**The Senate Committee on Commerce, Science, and Transportation**  
**Remarks on S. 625, the Auto Choice Reform Act of 1997**  
**September 9, 1998**

Mr. Chairman and Members of the Committee. It's my pleasure to be here this morning. I appreciate your invitation to speak with you about the important legislation you are considering.

The Auto Choice Reform Act is a bipartisan, and very thoughtful, effort to improve the auto insurance system, a system that I think everyone agrees is inefficient, unfair, and far too expensive.

This legislation offers the residents of Denver, and motorists throughout our nation, a way to reduce their auto insurance costs. It would give them a choice they don't currently have: to opt out of coverage for non-economic damages such as pain and suffering and emotion distress. Drivers who choose this option – known as personal protection insurance – would save a significant amount of money and would still recover their economic damages such as medical bills, lost wages, and other out-of-pocket expenses. The savings would be accomplished by allowing consumers to remove the most inefficient and inflationary element of the auto insurance system from the cost of coverage.

This legislation would achieve several valuable objectives:

Number one, it would give motorists the opportunity to reduce their auto insurance premiums by an average of 26%. In urban areas, such as Denver, the savings would be even higher. Many of our residents would see their premiums reduced by as much as 40%. As the Joint Economic Committee reported, the average savings for a Colorado driver would be \$230 annually, 12<sup>th</sup> highest in the nation. The total reductions in auto insurance premiums in Colorado would be \$639 million per year. Denver residents alone could save an estimated \$90 million annually.

Secondly, this legislation leaves regulation of insurance to the states, so each state can retain the best elements of their current system. In Colorado, for example, we have established a relatively effective no-fault process for the recovery of economic damages, to the credit of our state legislators. But we also have relatively high premiums, and many of our citizens struggle to pay for them. This legislation would make Colorado's system substantially more affordable while preserving its strongest assets. Bad drivers still would be punished with higher premiums; injured parties still would be able to sue a negligent driver for economic damages in excess of the plaintiff's coverage; and an insured motorist would still be able to seek compensation from his own carrier if he is involved in an accident with an uninsured motorist.

And, if a motorist wanted to retain the right to sue for non-economic damages, he could do so simply by choosing traditional tort liability coverage. The only difference is that the injured party, after proving fault or negligence, would be compensated by his or her own insurance company for the non-economic damages.

Third, this legislation targets, in a very real way, one of the most regressive and unfair costs imposed on the urban poor – auto insurance premiums. The U.S. Department of Labor has reported that families in the bottom 20 percent of income spend seven times the percentage of their household earnings on auto insurance as do families in the top 20 percent. A 1993 study in Arizona revealed that half of all poor families have to put off paying basic expenses such as food, rent, or a mortgage payment in order to pay their auto insurance premium. That is not the kind of choice we want people to be forced to make. And this is not just an issue for the poor. Middle-income families spend on average 150% more on auto insurance than they do on education.

Fourth, it would reduce the growing problem of waste and fraud that inflates the cost of auto

insurance for all of us. The FBI has estimated that insurance fraud costs every American an average of \$200 dollars a year. And research by the RAND Institute of Civil Justice indicates that more than 1 out of every 3 dollars in injury claims is excessive or fraudulent. Our current system is overcompensating nuisance claims and undercompensating serious injuries. Victims with minor injuries generally receive as much as twice their actual loss. Meanwhile, auto insurance victims with serious injuries recover anywhere from half to one-tenth their losses. This combination of waste and fraud has been compared, by consumer advocate Any Tobias, to a homeowner's insurance policy that pays triple for the value of a stolen stereo but only 9 percent if the house burns down.

And fifth, by increasing the affordability of auto insurance, we can reduce the growing problem of uninsured motorists. The RAND study establishes a direct and substantial relationship between the cost of auto insurance and the percentage of drivers who obtain coverage. For example, a 40% reduction in auto insurance premiums would result in a 50% reduction in the number of uninsured drivers.

What does that mean in human terms? It means that fewer of our working poor will be required to choose between groceries and auto insurance, and fewer middle-class Americans will be forced to choose between their retirement and their children's education. It means a reduced burden for our public hospitals, since a higher percentage of auto accident victims who receive medical care will have insurance to pay their hospital bills. It means lower costs and more success for our small businesses, creating jobs and opportunity.

And it means that the unemployed men and women in our communities will have an easier time transition from welfare to work because of these jobs and because their transportation costs will go down.

Let me emphasize another point as well. No system is perfect. Advocates of traditional tort coverage can cite factual circumstances in which a driver would be better off by recovering for pain and suffering. But we must not forget a simple observation – the vast majority of people, in the vast majority of circumstances, will be more fully and more quickly compensated, and receive a fairer return on their auto insurance investment, under the personal protection insurance option in the Auto Choice bill.

Finally, it is important to remember that this legislation gives drivers a choice, not a mandate. In particular, drivers would have the option to remain with traditional tort liability coverage. They would decide whether they wanted to pay a significant portion of their premium for the expensive and often protracted avenue of suing for noneconomic damages.

And under no circumstances would drivers lose the right to sue for those noneconomic damages that were inflicted intentionally or as a result of drugs or alcohol.

It is my strong belief that government can forge broad alliances across ideological, economic, and ethnic barriers by fashioning public policy on the twin foundations of efficiency and fairness. The Auto Choice Reform Act is a wonderful example of this principle. The remarkable savings achieved by this legislation are derived by tackling the gross inefficiencies of fraud and abuse and excessive litigation, and by expanding consumer choice.

In closing, I strongly urge your favorable consideration of this important and bipartisan bill. I want to acknowledge both the Republicans and Democrats who have sponsored and supported this legislation, including Senator Allard. Thank you, Mr. Chairman and the members of this Committee, for the opportunity to speak with you this morning.

